



**MADIBENG LOCAL MUNICIPALITY**  
**Annual Financial statements**  
**for the year ended 30 June 2019**

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## General Information

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<b>Nature of business and principal activities</b>	Providing municipal services
Speaker	Cllr. KS Ntshabele
Executive Mayor	Cllr. JM Mothibe
Chief Whip	Cllr. PB Makgabo
<b>Chairperson MPAC</b>	<b>Cllr. E Diale</b>
<b>Mayoral Committee</b>	Cllr. MM MacheteCllr. DS MaimaneCllr. NM MaqakambaCllr. SM MauntlalaCllr. ETM ModiseCllr. SDN NthangeniCllr. PA PhetlheCllr. J RatloiCllr. J SefudiCllr. M Tlhopane

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## General Information

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### Councillors

Cllr. MZ banda  
Cllr. EJ Edward  
Cllr. TS Bogale  
Cllr. RNJ Breytenbach  
Cllr. RE Dikgang  
Cllr. M Du Plessis  
Cllr. BP Gous  
Cllr. HJ Gobbelaar  
Cllr. KS Komape  
Cllr. EDF Lourens  
Cllr. ML Mabokachaba  
Cllr. NS mabunda  
Cllr. S Maila  
Cllr. ML Makgale  
Cllr. AWS Malatse  
Cllr. II Maledu  
Cllr. CM Mampuru  
Cllr. OD Marapyane  
Cllr. FM Masemola  
Cllr. BA Maubane  
Cllr. PK Mawayi  
Cllr. LG Mhlambi  
Cllr. JT Moabi  
Cllr. TM Modiha  
Cllr. JM Modipane  
Cllr. AM Modisakeng  
Cllr. TJ Mohlabane  
Cllr. RR Mohulatsi  
Cllr. MA Mokgoko  
Cllr. RA Mokone  
Cllr. T Mokwena  
Cllr. DM Molekoa  
Cllr. MS Moloi  
Cllr. AI Molotsi  
Cllr. ED Montsho  
Cllr. MD Morapedi  
Cllr. OP Mosielele  
Cllr. J Mosito  
Cllr. MD Mosolodi  
Cllr. MW Motswai  
Cllr. BR Motswai  
Cllr. NB Muhlana  
Cllr. WJ Muller  
Cllr. EM Nkoe  
Cllr. RP Padi  
Cllr. EL Phago  
Cllr. HT Phalwane  
Cllr. J Pieterse  
Cllr. P Pretorius  
Cllr. AS Rakomane  
Cllr. WS Ramaboa  
Cllr. MM Ramahofu  
Cllr. MM Ramila  
Cllr. AD Ratlou  
Cllr. GJ Rossouw  
Cllr. MG Sadikge  
Cllr. C Seabi  
Cllr. MM Sekgothe  
Cllr. CS Sekhoto  
Cllr. KM Shalang  
Cllr. GF Sithole  
Cllr. EE Tanke  
Cllr. P Thubisi  
Cllr. KS Tlapu

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## General Information

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Cllr. P Tsheola  
Cllr. E Van der Schyff  
Cllr. JC Van Rhyn  
Cllr EJ Barlow

**Registered office**

53 Van Velden Street  
Brits  
0250

**Business address**

53 Van Velden Street  
Brits  
0250

**Postal address**

PO Box 106  
Brits  
0250

**Bankers**

First National Bank

**Auditors**

Auditor General South Africa

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

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The reports and statements set out below comprise the annual financial statements presented to the municipal council:

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GRAP	Generally Recognised Accounting Practice
MSCOA	Municipal Standard Chart Of Accounts
IAS	International Accounting Standards
CIGFARO	Chartered Institute of Government Finance Audit and Risk Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
PIC	Public Investment Corporation
PAAP	Post Audit Action plan
SMT	Strategic Management team

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Accounting Officer's Responsibilities and Approval

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The accounting officer is required by the section 126(1) of the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

I am responsible for the preparation of these annual financial statements, which are set out on pages s 10 to 81, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the municipality.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2020 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is substantially dependent on the government for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the operations.

The accounting officer certifies that the salaries, allowances and benefits of councillors, loans made to councillors, if any, and payments made to councillors for loss of office, if any, as disclosed in note 35 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements set out on pages s 10 to 81, which have been prepared on the going concern basis, were approved by the Accounting Officer on 27 August 2019.

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**Ms G Magole**  
**Municipal Manager**

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Audit Committee Report

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### Mandatory Roles of the Audit Committee

Section 166 of the MFMA (Act No. 56 of 2003) clearly states that each municipality must have an Audit Committee. The Audit Committee is an independent advisory body that advises council, political office bearers, accounting officer, and staff of the municipality on the following:

Internal financial control and internal audits;

Risk management;

Accounting policies;

The adequacy, reliability, and accuracy of financial reporting and information;

Performance management;

Effective governance;

Compliance with the MFMA, the annual Division of Revenue Act (DoRA) and any other applicable legislation;

Performance evaluation;

Any other issues referred to by the municipality;

Review annual financial statements so as to provide authoritative and credible view of the financial position, on overall compliance with MFMA, DORA and other applicable legislations.

Respond to Council on any matter raised by the Auditor-General (AGSA); and

Carry out such investigations into financial affairs of the municipality as may be prescribed from time to time.

### Terms of Reference

The Audit Committee has adopted its written terms of reference included in the Audit Committee Charter approved by the Council.

### Audit committee members and attendance

The Audit Committee consists of five (5) external members who have been appointed by the Council in August 2018 as per Council resolution A.0091. The following illustrate the number of meeting attended by each member:

<b>Name of member</b>	<b>Number of meetings attended</b>
Mrs F Mudau (Chairperson)	6
Mr V Chuene	7
Mr F Mokhabela	4
Mr J Matsho	7
Mr L Mohalaba	6

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Audit Committee Report

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### Effectiveness of internal Audit and internal controls

The Madibeng Local Municipality (MLM) has a functioning Internal Audit Function reporting functionally to the Audit Committee and administratively to the Accounting Officer. The Chief Audit Executive has unrestricted access to the Chairperson of the Audit Committee to ensure independence of the Function.

The Audit Committee is of the opinion that Internal Audit Function is operating satisfactorily to meet its mandate and has considered the risk pertinent to the municipality in their audit plans. The following activity reports were approved by the Audit Committee during the year:

- The Three- Year Rolling Strategic 2021 and Operational Plan 2019
- Internal Audit Charter to affirm its role, responsibilities and authority

Internal Audit reports regularly in the Audit Committee meetings

Internal control is a process for assuring the achievements of an organisation's objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with laws and regulations.

During the financial year, the following audits were executed by Internal Audit and reports issued to Management and Audit Committee:

Security Management

Fuel and Fleet Management

Supply Chain Management

Compliance Audit

Overtime Management Follow-up

Travelling Allowances

Revenue Management Follow-up

Integrity Management

Human Resources Follow-up

Records Management

Infrastructure Maintenance Follow-up

Performance Management

Annual Financial Statement high level review

The Audit Committee can assert that the system of internal control was partially adequate and effective during the year under review as compliance with prescribed policies and procedures were lacking in most instances.



# **MADIBENG LOCAL MUNICIPALITY**

Annual Financial Statements for the year ended June 30, 2019

## **Audit Committee Report**

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### **Effectiveness of risk management**

The Accounting Officer is responsible for the establishment of an effective system of Risk Management within the municipality that is aligned to the principles of good corporate governance as supported by the MFMA Act No 56 of 2003 and King IV. For the year under review, the municipality was able to review its strategic risks register on the meeting held for 31 May 2017 to 02 June 2017.

The following policies have been recommended to Council with regard to Risk Management:

- Risk Management Policy
- Risk Management Committee Charter
- Draft Anti-Fraud and Corruption Prevention Plan
- Whistleblowing Policy

The Audit Committee has noted that the municipality has established the Risk Management Committee headed by External Chairperson on which the first meeting sat on 30 June 2017. Furthermore, the municipality was in the process of filling the vacancies in Risk Management Unit and has since been advertised and it is anticipated that the process will be completed in the next financial year to capacitate the Unit and bring necessary expertise into Risk Management discipline.

### **Effectiveness of performance management system**

The municipality has reviewed a quarterly performance management reports submitted by Management. There was delay in submitting the PMS Reports by some of the Directorates to Internal Audit on time leading to delay in auditing processes. The Accounting Officer is kept responsible to ensure that senior managers takes the PMS very serious and that reports are submitted when they fell due. Furthermore, senior managers were not assessed for the most part of the financial year, which might lead to another recurring finding by the Auditor-General.

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Audit Committee Report

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### Quality of monthly/quarterly financial reporting

The Audit Committee was privy to some of monthly financial reports (sec 71 reports) submitted by the Budget and Treasury Office (BTO) during the period under review.

The Audit Committee is concerned by capacity of the BTO following the unprecedented departure of three senior managers of the Municipality including the Chief Financial Officer in December 2018.

The Audit Committee has advised Management and Council to fill the positions urgently.

### Combined assurance

The Audit Committee is responsible for monitoring the Combine Assurance model. This model assess significant process of assurance over risks for monitoring by line management, Internal Audit, Risk Management, External Auditors and Council. Engagement regarding the extent to which the various assurance providers rely on each other's work will take place continually. During the year under review, A Combine Assurance Framework and Implementation Plan have been approved by Council. This will assist in avoiding the duplication and ensure efficiency of resources across various assurance providers.

### Review of the Annual Financial Statements

The Audit Committee has in consultation with management:

- reviewed the engagement letter and external auditors' plans.
- reviewed and discussed with the Auditor-General and the Accounting Officer;
- the audited Annual Financial Statements to be included in the Annual Report;
- reviewed the Auditor-General's management letter and management's response thereto; and
- reviewed significant adjustments resulting from the audit.

The Audit Committee concurs and accepts the conclusions of the Auditor-General on the Annual Financial Statements and is of the opinion that the audited Annual Financial Statements be accepted and read together with the report of the Auditor-General.

### Overall Observation and Conclusion

The municipality is a defendant in number of cases and in a particular the PIC Loan which represent the biggest chunk of contingent liabilities. This matter jeopardises the ability of the municipality to continue on foreseeable future including the cash flow constraints experienced for the year under review.

The Audit Committee appreciates that the municipality has established Revenue Enhancement Strategy Committee consisting of multiple role-players chaired by the Accounting Officer on a monthly basis. This Committee will go a long way if supported by the Political Principals including all councillors to ensure that it comes to fruition.

### Appreciation

The Audit Committee expresses its sincere appreciation to the Offices of the Executive Mayor, the Speaker, the Chief Whip, Acting Municipal Manager, Management and all officials for their unwavering support and interest in the activities of the Committee during the year under review. The advice and support of other stakeholders such as the Internal Audit function, Auditor General South Africa, Provincial Treasury and the Provincial Department: Local Government and Human Settlement is also acknowledged in pursuing the interest of effective Corporate Governance and clean audit outcomes within the municipality.

We extend our gratitude to the Internal Audit unit for their efforts during the year despite resources constraints and other frustrations they might have encountered. The Audit Committee remains confident of the matters raised in this report receiving due consideration and intervention by the new Council. We are committed to fully execute our oversight function and in strengthening Corporate Governance.

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Accounting Officer's Report

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The accounting officer submits her report for the year ended June 30, 2019.

### 1. Review of activities

#### Main business and operations

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements.

### 2. Going concern

We draw attention to the fact that at June 30, 2019, the municipality had an accumulated surplus (deficit) of R 4,400,145,586 and that the municipality's total assets exceed its liabilities by R 4,400,145,586.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 3. Subsequent events

The accounting officer notes the appointment of Administrator subsequent to year end, 30 June 2019.

### 4. Accounting Officer's interest in contracts

The accounting officer has no interests in contracts awarded.

### 5. Accounting policies

The annual financial statements prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

### 6. Corporate governance

#### The Council

- retains full control over the municipality, its plans and strategy and
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality.

#### 6.1 Fruitless and wasteful expenditure

The current year fruitless and wasteful expenditure amounting to R3 827 542 relates to interest charge on late payment of invoices from Eskom (R 3 421 593.08 ), Telkom ( R40 505.22 ), Rand Water (R 221 508.42 ), Auditor General South Africa (R 43 737.61),Tshwane (R62 485.84) and other suppliers (R 37 711.90).

The remuneration of the accounting officer and section 56 managers are determined by the upper limits for senior managers.

#### 6.2 Audit committee

Ms F Mudau was the chairperson of the audit committee for the financial year under review.

In terms of Section 166 of the Municipal Finance Management Act, the municipality, must appoint members of the audit committee. National Treasury policy requires that municipalities should appoint further members of the municipality's audit committee who are not councillors of the municipality onto the audit committee.

#### 6.3 Internal audit

The municipality has an independent internal audit function. This is in compliance with the Municipal Finance Management Act, 2003.

The chief audit executive is Mr. M. Mmapheho.

# **MADIBENG LOCAL MUNICIPALITY**

Annual Financial Statements for the year ended June 30, 2019

## **Accounting Officer's Report**

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### **7. Bankers**

The municipality banks primarily with FNB.

### **8. Auditors**

Auditor General South Africa will continue in office for the next financial period.

### **9. Public Private Partnership**

During the financial period under review, Madibeng Local Municipality did not enter into any Public Private Partnerships.

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Statement of Financial Position as at June 30, 2019

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Assets</b>			
Current Assets			
Inventories	5	16,432,806	9,514,533
Other financial assets	9	-	4,041,246
Receivables from non-exchange transactions	7	19,851,178	438,694,101
VAT receivable		30,205,717	78,744,415
Prepayments		7,268,710	7,259,732
Receivables from exchange transaction	6	285,587,258	218,417,852
Cash and cash equivalents	8	3,511,804,680	2,655,594,804
		<b>3,871,150,349</b>	<b>3,412,266,683</b>
Non-Current Assets			
Investment property	2	91,570,000	168,005,000
Property, plant and equipment	3	5,320,639,010	5,522,564,270
Intangible assets		3,964,094	-
Heritage assets	4	10,100	10,100
Other financial assets	9	13,225,782	13,027,724
		<b>5,429,408,986</b>	<b>5,703,607,094</b>
<b>Total Assets</b>		<b>9,300,559,335</b>	<b>9,115,873,777</b>
<b>Liabilities</b>			
Current Liabilities			
Payables from exchange transactions	10	1,057,552,382	662,907,017
Payables from non-exchange transactions	11	52,861,700	47,665,339
Consumer deposits	13	40,807,312	15,946,827
Unspent conditional grants and receipts	14	16,903,048	987,137
Bank overdraft	8	3,422,633,844	2,597,064,583
		<b>4,590,758,286</b>	<b>3,324,570,903</b>
Non-Current Liabilities			
Operating lease liability	34	80,107,221	45,678,536
Employee benefit obligation	15	212,758,405	182,069,322
Provisions	16	16,789,837	29,485,969
		<b>309,655,463</b>	<b>257,233,827</b>
<b>Total Liabilities</b>		<b>4,900,413,749</b>	<b>3,581,804,730</b>
<b>Net Assets</b>		<b>4,400,145,586</b>	<b>5,534,069,047</b>
Accumulated surplus		4,400,145,586	5,534,069,047

\* See Note 40

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Statement of Financial Performance

Figures in Rand	f	2019	2018 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	17	677,315,512	660,157,651
Rental of facilities and equipment	22	1,099,009	1,407,646
Licences and permits	49	6,644,262	6,121,048
Commissions received		13,215,741	12,252,589
Donations		324,159	288,360
Other operational revenue	20	10,881,486	9,448,263
Interest received - investment	19	56,619,837	90,896,445
Actuarial gain on post employment benefits		-	29,722,000
<b>Total revenue from exchange transactions</b>		<b>766,100,006</b>	<b>810,294,002</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	23	250,713,059	258,006,000
<b>Transfer revenue</b>			
Government grants & subsidies	24	858,498,726	780,488,000
Fines, Penalties and Forfeits	50	152,864	4,998,093
<b>Total revenue from non-exchange transactions</b>		<b>1,109,364,649</b>	<b>1,043,492,093</b>
<b>Total revenue</b>	25	<b>1,875,464,655</b>	<b>1,853,786,095</b>
<b>Expenditure</b>			
Employee related costs	30	(500,089,433)	(424,722,577)
Remuneration of councillors	35	(31,050,339)	(30,531,415)
Depreciation and amortisation	29	(476,380,017)	(470,793,281)
Impairment loss/ Reversal of impairments	33	(637,351)	(3,381,792)
Finance costs	31	(4,698,825)	(41,134,171)
Lease rentals on operating lease	34	(38,625,004)	(65,044,028)
Debt Impairment	28	(748,800,823)	128,997,789
Bulk purchases	26	(814,197,541)	(599,792,691)
Contracted services	27	(147,440,398)	(191,712,662)
Transfers and Subsidies		(374,480)	(2,343,182)
Loss on disposal of assets and liabilities		(7,603,803)	-
Loss on fair value adjustments		(709,000)	-
Fair value adjustments		-	(149,240,000)
Other Operational Expenses	32	(238,781,106)	(228,869,355)
<b>Total expenditure</b>		<b>(3,009,388,120)</b>	<b>(2,078,567,365)</b>
<b>Deficit for the year</b>		<b>(1,133,923,465)</b>	<b>(224,781,270)</b>

\* See Note 40

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
<b>Balance at July 1, 2017</b>	<b>5,758,850,317</b>	<b>5,758,850,317</b>
Changes in net assets		
Deficit for the year	(224,781,270)	(224,781,270)
Total changes	(224,781,270)	(224,781,270)
<b>Restated* Balance at July 1, 2018</b>	<b>5,534,069,051</b>	<b>5,534,069,051</b>
Changes in net assets		
Deficit for the year	(1,133,923,465)	(1,133,923,465)
Total changes	(1,133,923,465)	(1,133,923,465)
<b>Balance at June 30, 2019</b>	<b>4,400,145,586</b>	<b>4,400,145,586</b>

\* See Note 40

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		596,552,587	904,408,608
Grants		875,861,000	781,148,500
Interest income		56,619,837	90,896,445
Other receipts		31,995,362	36,224,889
		1,561,028,786	1,812,678,442
<b>Payments</b>			
Employee costs		(529,856,213)	(545,274,735)
Suppliers		(785,552,499)	(1,010,218,256)
Finance costs		(4,698,825)	(1,314,578)
Other payments		(43,821)	(2,459,900)
		(1,320,151,358)	(1,559,267,469)
<b>Net cash flows from operating activities</b>	36	<b>240,877,428</b>	<b>253,410,973</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	3	(210,236,812)	(222,276,875)
Proceeds from sale of financial assets		-	(252,595)
<b>Net cash flows from investing activities</b>		<b>(210,236,812)</b>	<b>(222,529,470)</b>
<b>Cash flows from financing activities</b>			
Finance lease payments		-	(5,716,855)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>30,640,616</b>	<b>25,164,648</b>
Cash and cash equivalents at the beginning of the year		58,530,220	33,365,573
<b>Cash and cash equivalents at the end of the year</b>	8	<b>89,170,836</b>	<b>58,530,221</b>

\* See Note 40



# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	728,868,000	-	728,868,000	677,315,512	(51,552,488)	Appendix E(1)
Rental of facilities and equipment	70,000	-	70,000	1,099,009	1,029,009	Appendix E(1)
Licences and permits	2,200,000	-	2,200,000	6,644,262	4,444,262	Appendix E(1)
Commission received	9,000,000	-	9,000,000	13,215,741	4,215,741	Appendix E(1)
Donation received	-	-	-	324,159	324,159	
Operational income	7,644,000	-	7,644,000	10,881,486	3,237,486	Appendix E(1)
Interest received - investment	93,200,000	-	93,200,000	56,619,837	(36,580,163)	Appendix E(1)
<b>Total revenue from exchange transactions</b>	<b>840,982,000</b>	<b>-</b>	<b>840,982,000</b>	<b>766,100,006</b>	<b>(74,881,994)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	320,131,000	-	320,131,000	250,713,059	(69,417,941)	Appendix E(1)
<b>Transfer revenue</b>						
Transfers & subsidies	627,887,000	916,000	628,803,000	858,498,726	229,695,726	Appendix E(1)
Fines, Penalties and Forfeits	1,001,000	-	1,001,000	152,864	(848,136)	Appendix E(1)
<b>Total revenue from non-exchange transactions</b>	<b>949,019,000</b>	<b>916,000</b>	<b>949,935,000</b>	<b>1,109,364,649</b>	<b>159,429,649</b>	
<b>Expenditure</b>						
Employee related costs	(390,960,000)	(9,804,000)	(400,764,000)	(500,089,433)	(99,325,433)	Appendix E(1)
Remuneration of councillors	(32,370,000)	-	(32,370,000)	(31,050,339)	1,319,661	Appendix E(1)
Depreciation	(552,750,000)	-	(552,750,000)	(476,380,017)	76,369,983	Appendix E(1)
Impairment loss/ Reversal of impairments	(1,162,649)	-	(1,162,649)	(637,351)	525,298	Appendix E(1)
Finance costs	(110,500,000)	-	(110,500,000)	(4,698,825)	105,801,175	Appendix E(1)
Lease rentals on operating lease	(4,000,002)	-	(4,000,002)	(38,625,004)	(34,625,002)	Appendix E(1)
Debt Impairment	(280,000,000)	-	(280,000,000)	(748,800,823)	(468,800,823)	Appendix E(1)
Repairs and maintenance	(26,541,000)	-	(26,541,000)	(103,202,222)	(76,661,222)	Appendix E(1)
Bulk purchases	(550,000,000)	15,000,000	(535,000,000)	(814,197,541)	(279,197,541)	Appendix E(1)
Contracted services	(271,888,000)	23,810,000	(248,078,000)	(147,440,398)	100,637,602	Appendix E(1)
Transfers and subsidies	(4,000,000)	(51,000)	(4,051,000)	(374,480)	3,676,520	Appendix E(1)
Operational expenses	(166,355,000)	(30,457,000)	(196,812,000)	(135,578,884)	61,233,116	Appendix E(1)
<b>Total expenditure</b>	<b>(2,390,526,651)</b>	<b>(1,502,000)</b>	<b>(2,392,028,651)</b>	<b>(3,001,075,317)</b>	<b>(609,046,666)</b>	
<b>Operating (deficit)/surplus</b>	<b>(600,525,651)</b>	<b>(586,000)</b>	<b>(601,111,651)</b>	<b>(1,125,610,662)</b>	<b>(524,499,011)</b>	
Loss on assets written off	-	-	-	(7,603,803)	(7,603,803)	
Actuarial gains/(loss) on post employment benefits	-	-	-	(709,000)	(709,000)	
	-	-	-	(8,312,803)	(8,312,803)	
<b>Surplus/(deficit)</b>	<b>(600,525,651)</b>	<b>(586,000)</b>	<b>(601,111,651)</b>	<b>(1,133,923,465)</b>	<b>(532,811,814)</b>	

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts	Difference between final budget and actual	Reference
Figures in Rand						
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>(600,525,651)</b>	<b>(586,000)</b>	<b>(601,111,651)</b>	<b>(1,133,923,465)</b>	<b>(532,811,814)</b>	

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	10,530,000	-	<b>10,530,000</b>	16,432,806	<b>5,902,806</b>	Appendix E(1)
Other financial assets	5,265,000	-	<b>5,265,000</b>	-	<b>(5,265,000)</b>	Appendix E(1)
Receivables from non-exchange transactions	-	-	-	19,851,176	<b>19,851,176</b>	Appendix E(1)
VAT receivable	-	-	-	30,205,717	<b>30,205,717</b>	
Prepayments	-	-	-	7,268,710	<b>7,268,710</b>	Appendix E(1)
Receivables from exchange transactions	(5,217,410)	-	<b>(5,217,410)</b>	285,587,258	<b>290,804,668</b>	Appendix E(1)
Cash and cash equivalents	6,976,000	-	<b>6,976,000</b>	2,137,193,719	<b>2,130,217,719</b>	Appendix E(1)
	<b>17,553,590</b>	-	<b>17,553,590</b>	<b>2,496,539,386</b>	<b>2,478,985,796</b>	
<b>Non-Current Assets</b>						
Investment property	273,780,000	-	<b>273,780,000</b>	91,570,000	<b>(182,210,000)</b>	Appendix E(1)
Property, plant and equipment	6,108,458,000	-	<b>6,108,458,000</b>	5,320,639,010	<b>(787,818,990)</b>	Appendix E(1)
Intangible assets	-	-	-	3,964,094	<b>3,964,094</b>	
Heritage assets	10,000	-	<b>10,000</b>	10,100	<b>100</b>	Appendix E(1)
Other financial assets	13,689,000	-	<b>13,689,000</b>	13,225,782	<b>(463,218)</b>	Appendix E(1)
	<b>6,395,937,000</b>	-	<b>6,395,937,000</b>	<b>5,429,408,986</b>	<b>(966,528,014)</b>	
<b>Total Assets</b>	<b>6,413,490,590</b>	-	<b>6,413,490,590</b>	<b>7,925,948,372</b>	<b>1,512,457,782</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Payables from exchange transactions	256,406,000	-	<b>256,406,000</b>	1,057,552,382	<b>801,146,382</b>	Appendix E(1)
Payables from non-exchange transactions	-	-	-	52,861,700	<b>52,861,700</b>	Appendix E(1)
Consumer deposits	13,689,000	-	<b>13,689,000</b>	40,807,312	<b>27,118,312</b>	Appendix E(1)
Unspent conditional grants and receipts	-	-	-	16,903,048	<b>16,903,048</b>	Appendix E(1)
Bank overdraft	-	-	-	2,048,022,883	<b>2,048,022,883</b>	
	<b>270,095,000</b>	-	<b>270,095,000</b>	<b>3,216,147,325</b>	<b>2,946,052,325</b>	
<b>Non-Current Liabilities</b>						
Operating lease liability	-	-	-	80,107,221	<b>80,107,221</b>	
Employee benefit obligation	123,201,000	-	<b>123,201,000</b>	212,758,405	<b>89,557,405</b>	Appendix E(1)
Provisions	-	-	-	16,789,837	<b>16,789,837</b>	Appendix E(1)
	<b>123,201,000</b>	-	<b>123,201,000</b>	<b>309,655,463</b>	<b>186,454,463</b>	
<b>Total Liabilities</b>	<b>393,296,000</b>	-	<b>393,296,000</b>	<b>3,525,802,788</b>	<b>3,132,506,788</b>	
<b>Net Assets</b>	<b>6,020,194,590</b>	-	<b>6,020,194,590</b>	<b>4,400,145,584</b>	<b>(1,620,049,006)</b>	

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts	Difference between final budget and actual	Reference
Figures in Rand						
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	6,020,194,590		- 6,020,194,590	4,400,145,582	(1,620,049,008)	

# **MADIBENG LOCAL MUNICIPALITY**

Annual Financial Statements for the year ended June 30, 2019

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality. The annual financial statements have been rounded to the nearest Rand.

#### 1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### 1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgement include:

#### Receivables

The municipality assesses its receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for receivables is calculated on a portfolio basis.

#### Allowance for slow moving, damaged and obsolete stock

An allowance for inventory to write inventory down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in note 32.

#### Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1.3 Significant judgements and sources of estimation uncertainty (continued)

#### Impairment testing

The recoverable (service) amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

#### Value in use of cash generating assets

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, together with economic factors such as inflation and interest.

#### Value in use of non-cash generating assets

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependant on the availability of data and the nature of the impairment.

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

#### Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the property, plant and equipment and other assets. This estimation should be based on the expected pattern in which an asset's future economic benefits or service potential are to be consumed by the municipality.

#### Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The most appropriate discount rate that reflects the time value of money is with reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 15.

#### Effective interest rate

The municipality used the prime interest rate to discount future cash flows. In the event that different rates were used, clear indication of the rate and the reasons are given.

#### Allowance for impairment of financial assets

On receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment determination is based on assessment of individual accounts.

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1.4 Investment property

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property includes property (land or a building, or part of a building, or either land or buildings) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods and services, or the sale of an asset in the ordinary course of operations or administrative purposes.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Investment property is measured using the fair value model. Under the fair value model, investment property is carried at its fair value at the reporting date. The valuations are performed annually by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Changes in fair values are recorded in the statement of financial performance as part of the surplus and deficit.

Where the classification of an investment property is based on management's judgement, the following criteria have been applied to distinguish investment properties from owner-occupied property and from property held for sale in the ordinary course of business:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment properties.
- land held for a currently undetermined future use.
- a building owned and leased out under one or more operating leases
- leased properties that are held to provide a social (community) service or that are necessary for employees to perform their job functions, but which also generates rental revenue are not seen as investment properties. The rental revenue generated is incidental to the purposes for which the property is held.
- a building that is vacant but is held to be leased out under one or more operating leases.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the statement of financial performance.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes.

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 3 ).

### 1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.



# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1.5 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost. Subsequent to initial recognition property plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

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Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	30 - 80 years
Plant and machinery	Straight line	5 - 17 years
Furniture and fixtures	Straight line	5 - 17 years
Motor vehicles	Straight line	5 - 15 years
Office equipment	Straight line	3 - 12 years
Computer equipment	Straight line	3 - 12 years
Bins and Containers	Straight line	7 - 15 years
Infrastructure		
Road surface layers	Straight line	7 - 50 years
Road structural layers	Straight line	7 - 50 years
Bridges	Straight line	60 - 80 years
Culverts	Straight line	15 years

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# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1.5 Property, plant and equipment (continued)

Storm water	Straight line	50 - 80 years
Electricity	Straight line	30 - 50 years
Water assets	Straight line	40 - 80 years
Sewer pipes	Straight line	80 years
Community		
Buildings	Straight line	30 - 50 years
Sports fields	Straight line	7 - 15 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 3).

### 1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

The related asset is measured using the cost model:

- subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1.7 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and held indefinitely for the benefit of present and future generations.

#### Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

#### Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

#### Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

#### Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

#### Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

#### Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

### 1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Public Investment Corporation	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Payable from exchange transactions	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost
Payables from non-exchange transaction	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

#### Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short term receivables and payables are not discounted where the initial credit period granted or received is consistent with the terms in the public sector, either through established practices or legislation.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### Impairment and uncollectibility of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Derecognition

##### Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

The difference between the carrying amount and the sum of consideration received is recognised in surplus or deficit

##### Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

### 1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

#### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in the statement of financial performance.

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1.9 Leases (continued)

#### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis over the lease term. Any contingent rents are recognised separately as an expense in the period which they are incurred.

### 1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.11 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

#### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1.11 Impairment of cash-generating assets (continued)

#### Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

#### Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

#### Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.



# MADIBENG LOCAL MUNICIPALITY

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## Accounting Policies

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### 1.11 Impairment of cash-generating assets (continued)

#### Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in uses of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1.11 Impairment of cash-generating assets (continued)

#### Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

#### Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

### 1.12 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

#### Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1.12 Impairment of non-cash-generating assets (continued)

#### Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

#### Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occurs when there is clear evidence that such a redesignation is appropriate.

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1.13 Employee benefits

#### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

#### Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1.13 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an municipality shall attribute benefit on a straight-line basis from:

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1.13 Employee benefits (continued)

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1.13 Employee benefits (continued)

#### Other long-term employee benefits

The municipality provides post-retirement health care benefits to some retirees

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities.

Actuarial gains and losses on the long-term service awards are recognised in the statement of financial performance.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

#### Termination benefits

The municipality recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

### 1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

# MADIBENG LOCAL MUNICIPALITY

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## Accounting Policies

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### 1.14 Provisions and contingencies (continued)

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

### Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

### 1.15 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments consist of expenditure committed but not yet incurred. Commitments are categorised as follows::

- Commitments approved and contracted for
- Commitments approved but not yet contracted for

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### 1.16 Revenue from exchange transactions

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.



# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

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### 1.16 Revenue from exchange transactions (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

Consumption based revenue from exchange transactions is determined using the services meter reading. However meter reading were no performed, the average of the previous three months actual reading is used. Where there were no recent service readings the Red Book estimates are used to estimate the services consumed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

#### Interest and dividends

Revenue arising from the use by others of municipality assets yielding interest is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends, or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

### 1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

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### 1.17 Revenue from non-exchange transactions (continued)

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

#### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised

#### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1.17 Revenue from non-exchange transactions (continued)

#### Property rates

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

#### Transfers

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

#### Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

#### Fines

Revenue from the issuing of fines is recognised when the definition of an asset is met and when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably
- Measurement and best estimates used
- when fines are collected in the capacity of an agent

The municipality has two types of fines: spot fines and summonses. Revenue from traffic fines is recognised at a full amount on the issue of fines. Fines that are subject to settlement discount are measured using the Municipality's consideration on past history in assessing the likelihood of these discounts being taken up by debtors. Revenue is then measured at the fair value of the consideration received or receivable, net of estimated settlement discounts.

#### Concessionary loans received

A concessionary loan is a loan granted to or received by the municipality on terms that are not market related.

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the municipality recognises revenue as and when it satisfies the conditions of the loan agreement

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1.17 Revenue from non-exchange transactions (continued)

#### Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, the fair value of the assets can be measured reliably and to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied

#### Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

### 1.18 Government grants

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the Municipality. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,;
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant..

### 1.19 Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,;
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant..

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

### 1.20 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1.21 Grants in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events giving rise to the transfer occurred.

### 1.22 Comparative figures

Reclassification of certain accounts were made in order to comply with the requirements of Municipal Standard Chart of Accounts (MSCOA). The reclassifications have no impact on the net asset value of the municipality.

here necessary, comparative figures have been reclassified to conform to changes in presentation in the current year note 40.

### 1.23 Unauthorised expenditure

Unauthorised expenditure means any expenditure incurred by the municipality otherwise than in accordance with section 15 or 11(3) of the Municipal Finance Management Act (Act No. 56 of 2003), and includes:

- overspending of the total amount appropriated in the municipality's approved budget;
- overspending of the total amount appropriated for a vote in the approved budget;
- expenditure from a vote unrelated to the department or functional area covered by the vote;
- expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
- a grant by the municipality otherwise than in accordance with the Municipal Finance Management Act.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.24 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.25 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy.

Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance:

Irregular expenditure that was incurred and identified during the current financial year and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1.25 Irregular expenditure (continued)

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

### 1.26 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

### 1.27 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash. Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met: Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and Contracts should relate to something other than the routine, steady, state business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;
- where the expenditure has been approved and the contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

Refer to note 37

### 1.28 Internal reserves

#### Capital replacement reserve (CRR)

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus/(deficit) to the CRR. A corresponding amount is transferred to a designated CRR bank or investment account. The cash in the designated CRR bank account can only be utilised to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus/(deficit) is credited by a corresponding amount when the amounts in the CRR are utilised.

### 1.29 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

### 1.30 Housing subsidies

The municipality provides post-retirement housing subsidies for qualifying staff members. The payment of these subsidies is reflected as expenditure in the municipality.

### 1.31 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1.32 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

### 1.33 Segment information

A segment is an activity of an entity:

- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

#### Measurement

The amount of each segment item reported is the measure reported to management for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing the entity's financial statements and allocations of revenues and expenses are included in determining reported segment surplus or deficit only if they are included in the measure of the segment's surplus or deficit that is used by management. Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by management are reported for that segment. If amounts are allocated to reported segment surplus or deficit, assets or liabilities, those amounts are allocated on a reasonable basis.

If management uses only one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities in assessing segment performance and deciding how to allocate resources, segment surplus or deficit, assets and liabilities are reported in terms of that measure. If management uses more than one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities, the reported measures are those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the entity's financial statements.

### 1.34 Research and development expenditure

Expenditure on research is recognised as an expense when it is incurred.

An asset arising from development is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

### 1.35 Budget information

Municipality is typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01 July 2018 to Sunday, June 30, 2019.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1.36 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

### 1.37 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

### 1.38 Events after reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the financial statements.

Events after the reporting date that are classified as non-adjusting events have been disclosed in the notes to the financial statements.

### 1.39 Value-added tax

The municipality is registered with the South African Revenue Services (SARS) for VAT on the payment basis, in accordance with Section 15(2) of the VAT Act No.89 of 1991.

Revenue, expenses and assets are recognised net of the amounts of value added tax. Value added tax is accounted for using the payment basis.



# **MADIBENG LOCAL MUNICIPALITY**

Annual Financial Statements for the year ended June 30, 2019

## **Accounting Policies**

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### **1.39 Value-added tax (continued)**

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 2. Investment property

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	91,570,000	-	91,570,000	168,005,000	-	168,005,000

#### Reconciliation of investment property - 2019

	Opening balance	Transfers	Fair value adjustments	Total
Investment property	168,005,000	(67,635,000)	(8,800,000)	91,570,000

#### Reconciliation of investment property - 2018

	Opening balance	Fair value adjustments	Total
Investment property	317,245,000	(149,240,000)	168,005,000

The investment property as fair valued by an independent valuator. The fair value of investment property was assessed at the end of the financial year and the significant changes in the fair value of the properties was adjusted.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 2. Investment property (continued)

The type of property will determine the method of valuation

#### 1. Comparable Sales method

The Comparable Sales Method estimates the value of a property by examining the other properties that have sold within a recent timeframe.

#### 2. Discounted cash flow method of valuation (DCF)

In finance, discounted cash flow (DCF) analysis is a method of valuing an asset (property) using the concepts of the time value of money. All future cash flows are estimated and discounted by using cost of capital to give their present values (PVs). The sum of all future cash flows, both incoming and outgoing, is the net present value (NPV), which is taken as the value of the cash flows in question.[1]

Using DCF analysis to compute the NPV takes as input cash flows and a discount rate and gives as output a present value; the opposite process—takes cash flows and a price (present value) as inputs, and provides as output the discount rate—this is used in bond markets to obtain the yield.

Discounted cash flow analysis is widely used in investment finance, real estate development, corporate financial management and patent valuation. It was used in industry as early as the 1700s or 1800s, widely discussed in financial economics in the 1960s, and became widely used in U.S. Courts in the 1980s and 1990s

### 3. Income capitalisation Approach

The Income Approach is one of three major groups of methodologies, called valuation approaches, used by appraisers. It is particularly common in commercial real estate appraisal and in business appraisal. The fundamental math is similar to the methods used for financial valuation, securities analysis, or bond pricing. However, there are some significant and important modifications when used in real estate or business valuation.

### 4. Depreciated Replacement Cost

“The current cost of reproduction or replacement of an asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization.”

Valuer: Stefan Rudman, Professional Associated ValuerDisclose nature of restriction as well as amounts]

### Income and Expenditure

Rental income	1,099,009	1,407,646
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# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 3. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	946,885,658	-	946,885,658	870,450,658	-	870,450,658
Buildings	150,710,373	(36,582,539)	114,127,834	150,710,373	(31,720,226)	118,990,147
Infrastructure	7,575,099,910	(4,227,366,626)	3,347,733,284	7,479,782,115	(3,775,006,512)	3,704,775,603
Community	200,632,832	(39,850,313)	160,782,519	200,632,832	(33,266,326)	167,366,506
Work in progress	690,689,547	-	690,689,547	597,445,395	-	597,445,395
Other property, plant and equipment	115,492,147	(55,071,979)	60,420,168	117,552,358	(54,016,397)	63,535,961
<b>Total</b>	<b>9,679,510,467</b>	<b>(4,358,871,457)</b>	<b>5,320,639,010</b>	<b>9,416,573,731</b>	<b>(3,894,009,461)</b>	<b>5,522,564,270</b>

### Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers received	Transfers	Depreciation	Total
Land	870,450,658	-	-	76,435,000	-	-	946,885,658
Buildings	118,990,147	-	-	-	-	(4,862,313)	114,127,834
Infrastructure	3,704,775,603	6,200,000	-	-	89,117,796	(452,360,115)	3,347,733,284
Community	167,366,506	-	-	-	-	(6,583,987)	160,782,519
Work in progress	597,445,395	182,361,948	-	-	(89,117,796)	-	690,689,547
Other property, plant and equipment	63,535,961	21,674,864	(10,456,482)	-	-	(14,334,175)	60,420,168
	<b>5,522,564,270</b>	<b>210,236,812</b>	<b>(10,456,482)</b>	<b>76,435,000</b>	<b>-</b>	<b>(478,140,590)</b>	<b>5,320,639,010</b>

Costs of day-to-day servicing, i.e. repairs and maintenance are expensed; only costs incurred to improve an asset can be capitalised

### Repairs & maintenance

64,323,508 104,203,439

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 3. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Transfers	Depreciation	Impairment loss	Total
Land	870,450,658	-	-	-	-	870,450,658
Buildings	122,812,913	-	1,029,300	(4,851,832)	(234)	118,990,147
Infrastructure	4,057,937,559	-	100,066,860	(449,847,263)	(3,381,553)	3,704,775,603
Community	173,950,494	-	-	(6,583,988)	-	167,366,506
Work in progress	498,166,149	200,375,406	(101,096,160)	-	-	597,445,395
Other property, plant and equipment	55,796,239	21,901,469	-	(14,161,747)	-	63,535,961
	<b>5,779,114,012</b>	<b>222,276,875</b>	<b>-</b>	<b>(475,444,830)</b>	<b>(3,381,787)</b>	<b>5,522,564,270</b>

### 4. Heritage assets

	2019			2018		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	10,100	-	10,100	10,100	-	10,100

#### Reconciliation of heritage assets 2019

	Opening balance	Total
Art Collections, antiquities and exhibits	10,100	10,100

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>4. Heritage assets (continued)</b>		
<b>Reconciliation of heritage assets 2018</b>		
	<b>Opening balance</b>	<b>Total</b>
Art Collections, antiquities and exhibits	10,100	10,100
<b>5. Inventories</b>		
Consumable stores	11,576,977	9,016,861
Water	4,845,511	487,354
Unsold Properties Held for Resale	10,318	10,318
	<b>16,432,806</b>	<b>9,514,533</b>
<b>6. Receivables from exchange transactions</b>		
<b>Gross balances</b>		
Electricity	259,445,251	248,920,492
Water	410,125,553	354,069,608
Sewerage	127,855,570	92,645,117
Refuse	123,386,748	128,109,168
Other	346,184,072	74,319,391
	<b>1,266,997,194</b>	<b>898,063,776</b>
<b>Less: Allowance for impairment</b>		
Electricity	(266,311,464)	(174,980,372)
Water	(422,970,784)	(276,251,775)
Sewerage	(130,354,109)	(74,746,336)
Refuse	(121,470,537)	(102,440,441)
Other	(40,303,042)	(51,227,000)
	<b>(981,409,936)</b>	<b>(679,645,924)</b>
<b>Net balance</b>		
Electricity	(6,866,213)	73,940,120
Water	(12,845,231)	77,817,833
Sewerage	(2,498,539)	17,898,781
Refuse	1,916,211	25,668,727
Other	305,881,030	23,092,391
	<b>285,587,258</b>	<b>218,417,852</b>
<b>Electricity</b>		
Current (0 -30 days)	50,084,393	49,852,620
31 - 60 days	11,575,433	11,582,685
61 - 90 days	9,587,297	12,568,452
91 - 120 days	188,198,128	174,916,735
> 365 days	(266,311,464)	(174,980,372)
	<b>(6,866,213)</b>	<b>73,940,120</b>

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>6. Receivables from exchange transactions (continued)</b>		
<b>Water</b>		
Current (0 -30 days)	29,255,501	55,625,809
31 - 60 days	12,290,080	15,658,882
61 - 90 days	11,298,334	15,486,325
91 - 120 days	357,281,638	267,298,592
> 365 days	(422,970,784)	(276,251,775)
	<b>(12,845,231)</b>	<b>77,817,833</b>
<b>Sewerage</b>		
Current (0 -30 days)	4,997,333	1,262,582
31 - 60 days	3,576,273	4,963,588
61 - 90 days	9,173,122	3,925,860
91 - 120 days	110,108,842	82,493,087
> 365 days	(130,354,109)	(74,746,336)
	<b>(2,498,539)</b>	<b>17,898,781</b>
<b>Refuse</b>		
Current (0 -30 days)	8,822,358	5,985,935
31 - 60 days	3,095,655	2,482,666
61 - 90 days	2,877,164	2,109,852
91 - 120 days	108,591,571	117,530,715
> 365 days	(121,470,537)	(102,440,441)
	<b>1,916,211</b>	<b>25,668,727</b>
<b>Other (specify)</b>		
Current (0 -30 days)	18,261,217	39,563,985
31 - 60 days	12,283,686	16,900,124
61 - 90 days	15,171,020	16,523,685
91 - 120 days	253,002,890	1,331,597
> 365 days	7,162,217	(51,227,000)
	<b>305,881,030</b>	<b>23,092,391</b>
<b>Reconciliation of allowance for impairment</b>		
Contributions to allowance	(679,645,924)	(817,706,479)
Debt impairment written off against allowance	(301,764,012)	138,060,555
	<b>(981,409,936)</b>	<b>(679,645,924)</b>
<b>7. Receivables from non-exchange transactions</b>		
Fines	13,818,299	13,818,299
Rates	719,266,431	673,216,334
Duplicate payments to suppliers	7,598,403	7,598,403
Allowance for impairment	(720,831,957)	(255,938,928)
	<b>19,851,176</b>	<b>438,694,108</b>

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>7. Receivables from non-exchange transactions (continued)</b>		
<b>Rates</b>		
Current (0 -30 days)	19,989,790	90,560,358
31 - 60 days	13,528,189	14,985,302
61 - 90 days	12,241,383	18,365,200
> 90 days	646,334,397	549,305,474
Allowance for debt impairment	(224,591,055)	(255,938,928)
	<b>467,502,704</b>	<b>417,277,406</b>
<b>Reconciliation of provision for impairment of receivables from non-exchange transactions</b>		
Opening balance	(255,938,928)	(343,374,209)
Allowance for impairment	31,347,873	87,435,281
	<b>(224,591,055)</b>	<b>(255,938,928)</b>
<b>8. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	78,196	78,196
Bank balances	2,838,639,579	2,338,711,147
Short-term deposits	40,359,835	5,463,920
Bank overdraft	(2,789,906,774)	(2,285,723,042)
	<b>89,170,836</b>	<b>58,530,221</b>
Current assets	3,511,804,680	2,655,594,804
Current liabilities	(3,422,633,844)	(2,597,064,583)
	<b>89,170,836</b>	<b>58,530,221</b>



# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand 2019 2018

### 8. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2019	June 30, 2018	June 30, 2017
ABSA Bank Cheque Account 640000376	1,407,112	-	1,495,305	12,374,670	18,823,173	18,549,846
ABSA Bank Cheque Account (Top Structure Housing) 4052683765	-	-	8,404	3,012	3,012	3,012
ABSA Bank Cheque Account (ODI) 4054697853	-	-	157,745	(1,550,091)	(1,550,091)	(1,118,219)
ABSA Bank Cheque Account (Licensing) 4052379233	-	-	100,571	-	24,158	181,903
ABSA Bank Growing Business Account 4055308239	3,576	-	-	-	-	-
ABSA Bank Growing Business Account 4079624376	3,346	-	-	-	-	-
FNB Main 62547261602	3,163,772	(2,213,531)	2,359,795	(163,157,282)	(37,592,946)	(5,370,367)
FNB Water 62457274423	-	-	-	9,803,646	11,040,146	10,449,056
FNB Licensing 62457263103	128,823	46,342	46,036	2,841,300	46,387	46,081
Standard Bank Call Account 38443622002	-	-	-	30,721	712	(67,847)
Investec Capital Markets 1400189013500	-	1,016,724	953,386	1,083,744	1,016,724	953,386
ABSA Bank Call Account 62576598323	-	-	-	154,558	154,558	154,558
FNB Call Account - MIG 62576598323	14,429,210	6,214	18,005	14,429,210	6,214	18,005
FNB Call Account - FMG 62550510153	1,143	1,275	5,990	1,143	1,275	5,990
FNB Call Account - DWARF 62550511424	-	-	9,507	-	-	9,507
FNB Call Account - MSIG 62550504263	-	-	2,671	-	-	2,671
FNB Call Account - INEP 62559313003	84,134	4,318,980	16,103	84,134	4,318,980	16,103
FNB Call Account - EPWP 62564478016	18,734,776	10,023	3,202	18,734,776	10,023	3,202
FNB Call Account - EQS 62564475210	5,569,857	16,248	5,128	5,569,857	16,248	5,128
FNB Call Investment 6254473941	-	-	352	-	-	352
FNB call Account - MIG Retention 62564479585	375,762	18,080	17,021	375,762	18,080	17,021
Nedbank Account 037881098570	-	-	-	81,209	76,377	-
<b>Total</b>	<b>43,901,511</b>	<b>3,220,355</b>	<b>5,199,221</b>	<b>(99,139,631)</b>	<b>(3,586,970)</b>	<b>23,859,388</b>

### 9. Other financial assets

#### Designated at fair value

Listed shares	1,196,657	1,518,601
Unit trusts	10,346,829	9,826,827
Other investments	1,682,296	5,723,542
	<b>13,225,782</b>	<b>17,068,970</b>

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>9. Other financial assets (continued)</b>		
<b>Non-current assets</b>		
Fair value	13,225,782	13,027,724
<b>Current assets</b>		
Fair value	-	4,041,246
<b>Financial assets at fair value</b>		
<b>10. Payables from exchange transactions</b>		
Trade payables	672,392,716	428,741,714
Payments received in advanced	190,728,249	102,967,972
Retentions	46,469,452	43,616,697
Unallocated deposits	168,428,004	105,446,676
Other payables	(20,466,039)	(17,866,042)
	<b>1,057,552,382</b>	<b>662,907,017</b>
<b>11. Payables from non-exchange transactions</b>		
Accrued bonus	11,174,670	7,845,091
Accrued leave pay	35,947,920	27,361,406
Salaries third party payments	5,739,110	12,458,842
	<b>52,861,700</b>	<b>47,665,339</b>
<b>12. VAT payable</b>		
<b>13. Consumer deposits</b>		
Consumer deposits	40,807,312	15,946,827
<b>14. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
Department of Water Affairs	16,262,682	-
Library Grant	640,366	987,137
	<b>16,903,048</b>	<b>987,137</b>
<b>Movement during the year</b>		
Balance at the beginning of the year	987,137	326,637
Additions during the year	241,520,682	214,046,000
Income recognition during the year	(225,604,771)	(213,385,500)
	<b>16,903,048</b>	<b>987,137</b>

The municipality has complied with all the conditions set by the transferring organ of State or the conditions set by the other institutions who made allocations to the municipality. The unspent portion of conditional allocations are disclosed as unspent conditional grants on the face value of the Statement of Financial Position of the municipality.

See note 24 for reconciliation of grants.

These amounts are invested in a ring-fenced investment until utilised.

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 15. Employee benefit obligations

#### Post employment medical aid plan

The municipality offers employees and continuation member opportunity of belonging to one of the several medical aid scheme, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee continues membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

#### Post retirement medical aid plan

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	161,163,927	165,835,927
Benefits paid	(4,277,000)	(3,941,000)
Net expense recognised in the statement of financial performance	29,861,000	(731,000)
	<b>186,747,927</b>	<b>161,163,927</b>

#### Net expense recognised in the statement of financial performance

Current service cost	17,321,000	8,593,000
Interest cost	9,066,000	19,033,000
Actuarial (gains) losses	3,474,000	(28,357,000)
	<b>29,861,000</b>	<b>(731,000)</b>

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 15. Employee benefit obligations (continued)

#### Key assumptions used

It is difficult to predict future investment returns and health care cost inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

**Discount Rate:** GRAP 25 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used.

Consequently, a discount rate of 10.33% per annum has been used. The corresponding medical inflation rate of 7.66%. These rates do not reflect any adjustment for taxation. These rates were deduced from the Johannesburg Stock Exchange (JSE) Zero Coupon bond yield after the market close on 30 June 2019.

The rate is calculated by using a weighted average of yields for the three components of the liability. Each component's fixed-interest and index-linked yield was taken from the JSE (Best Decency) Zero Coupon bond yield curve at that component's liability-weighted average duration, using an iterative process (because the yield depends on the liability, which in turn depends on the yield).

**Health Care Cost Inflation Rate:** This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective.

A health care cost inflation rate of 9.29% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 7.79%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 0.50% which derives from  $((1+9.84\%)/(1+9.29\%))-1$ .

The expected inflation assumption of 7.40% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities and those of fixed interest bonds (9.84%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases.

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# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 15. Employee benefit obligations (continued)

#### Long services Award

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	20,904,760	20,146,760
Benefits paid	(2,765,000)	(1,365,000)
Net expense recognised in the statement of financial performance	7,870,083	2,123,000
	<b>26,009,843</b>	<b>20,904,760</b>

#### Net expense recognised in the statement of financial performance

Current service cost	1,789,000	1,911,000
Interest cost	1,875,000	1,913,000
Actuarial (gains) losses	4,206,083	(1,701,000)
	<b>7,870,083</b>	<b>2,123,000</b>

#### Key assumptions used

In estimating the unfunded liability for LSA of the Municipality a number of actuarial assumptions are required. The GRAP 25 Statement places the responsibility on management to set these assumptions, as guided by the principles set out in the Statement and in discussion with the actuary.

It should be noted that the valuation method and assumptions do not affect the ultimate cost of the LSA– this is determined by actual experience and by the benefits provided. The method and assumptions influence how the past service liability and future-service costs are recognised over time.

The key financial and demographic assumptions are summarised below:

Discount rates used	8.10 %	8.80 %
Expected rate of return on assets	4.38 %	5.50 %
Expected rate of return on reimbursement rights	5.38 %	6.50 %

It is difficult to predict future investment returns and health care cost inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

**Discount Rate:** GRAP 25 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used.

Consequently, a discount rate of 8.80% per annum has been used. This is derived by using a liability-weighted average of the yields corresponding to the average term until payment of long service awards, for each employee. These rate do not reflect any adjustment for taxation. These rates were deduced from the Johannesburg Stock Exchange (JSE) Zero Coupon bond yield after the market close on 30 June 2019.

**Salary Inflation Rate:** This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement. It is important in that the LSA are based on an employee's salary at the date of the award.

The assumption is traditionally split into two components, namely General Salary Inflation and Promotional Salary Escalation. The latter is considered under demographic assumptions.

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 15. Employee benefit obligations (continued)

**General Salary Inflation:** This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, salary inflation is between 1.0% and 1.5% above CPI inflation.

The expected inflation assumption of 6.16% was obtained from the differential between market yields on index-linked bonds (1.41%) consistent with the estimated terms of the liabilities and those of nominal bonds (9.43%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as  $((1+8.15\%-0.50\%)/(1+1.41\%))-1$ .

Thus, a general salary inflation rate of 7.36% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 0.98%.

It has been assumed that the next salary increase will take place on 1 July 2019.

### 16. Provisions

#### Reconciliation of provisions - 2019

	Opening Balance	Interest charge	Change in provision for landfill closure	Total
Provision for the restoration of landfill site	29,485,969	987,780	(13,683,912)	16,789,837

#### Reconciliation of provisions - 2018

	Opening Balance	Additions	Total
Provision for the restoration of landfill site	17,895,845	11,590,124	29,485,969

Key financial assumptions used for the valuation of the closure costs for the Hartebeesfontein landfill site are as follow:

CPI	6.21%	6.05%
Discount rate	9.64%	9.60%
Nett effective discount rate	3.23%	3.35%

It is estimated that the landfill site has a remaining useful life of 3 years.

#### Environmental rehabilitation provision

The estimate is in respect of the landfill site currently in operation. The landfill site needs to be rehabilitated in 2022.

### 17. Service charges

Sale of electricity	416,969,949	451,194,159
Sale of water	166,370,438	116,163,894
Sewerage and sanitation charges	47,855,413	43,238,001
Refuse removal	46,119,712	49,561,597
	<b>677,315,512</b>	<b>660,157,651</b>

### 18. Commission received

Commission received	-	12,252,589
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# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>18. Commision received (continued)</b>		
The commision received is 20% agency fee from income receive from Traffic department .		
<b>19. Interest received</b>		
<b>Interest revenue</b>		
Investments	5,843,412	7,078,046
Interest charged on trade and other receivables	50,776,425	83,818,399
	<b>56,619,837</b>	<b>90,896,445</b>
<b>20. Other operational revenue</b>		
Advertising hoarding	67,004	70,287
Cemetery fees	1,162,360	1,063,859
Insurance commision	188,687	179,637
Notice fees	2,097,719	1,736,765
Other income	2,615	2,347
Bulk services	64,660	102,932
Extinguishing fires	-	123,273
Clearance certficates	129,756	131,322
Building plans	1,124,834	1,019,589
Reconnection fees	2,375,206	3,412,513
Refuse removal departmental sales	2,585,703	58,082
Service connections	33,753	29,395
Servitude income	95	86
Tender document fees	812,650	1,272,540
Town planning	229,544	235,963
Valuation fees	6,900	9,673
	<b>10,881,486</b>	<b>9,448,263</b>
<b>21. Fair value adjustments</b>		
Investment property (Fair value model)	-	(149,240,000)
<b>22. Rental of facilities and equipment</b>		
<b>Premises</b>		
Venue hire	47,771	129,134
House rent	971,832	1,204,007
	<b>1,019,603</b>	<b>1,333,141</b>
<b>Facilities and equipment</b>		
Hawkers stalls rent	79,406	74,505
	<b>1,099,009</b>	<b>1,407,646</b>

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 23. Property rates

#### Rates received

Residential	176,963,778	166,378,279
Commercial	(10,949,163)	49,448,269
State	47,033,296	15,558,047
Small holdings and farms	39,104,934	26,619,189
	<b>250,713,059</b>	<b>258,006,000</b>

#### Valuations

Residential	21,892,392,224	21,892,392,224
Commercial	5,940,462,923	5,940,462,923
State	2,132,942,300	2,132,942,300
Municipal	1,492,156,150	1,492,156,150
Small holdings and farms	8,862,922,166	8,862,922,166
	<b>40,320,875,763</b>	<b>40,320,875,763</b>

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 01 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

All categories of properties as stated in the General and supplementary valuation roll have a unique tariff linked to in a ratio of 1:1 in relation to residential properties and regulated properties rated are applied in terms of Municipal Property Rates Regulations as published in the Government Notice Number R.363 of 27 March 2009 which 1:0.25. State owned properties are exempted from rebates by virtue of ownership. Indigents consumers receives 100% rebate while pensioners receive a maximum of 50% rates rebate.

### 24. Government grants and subsidies

#### Operating grants

Equitable share	624,943,000	567,442,000
Finance management grant	1,770,000	1,700,000
	<b>626,713,000</b>	<b>569,142,000</b>

#### Capital grants

Expanded public works programme	990,408	2,591,000
Municipal infrastructure grant	225,258,000	194,755,000
Department of Water Affairs and Forestry	5,537,318	-
Intergrated national electrification	-	14,000,000
	<b>231,785,726</b>	<b>211,346,000</b>
	<b>858,498,726</b>	<b>780,488,000</b>

#### Equitable Share

In terms of the Division of Revenue Act, the annual equitable share allocated to the municipality is an unconditional grant. A portion of this grant is used to subsidise the provision of basic services to indigent community members in line with national policy.



# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 24. Government grants and subsidies (continued)

#### Department of Water Affairs and Forestry

Current-year receipts	21,800,000	-
Conditions met - transferred to revenue	(5,537,318)	-
	<b>16,262,682</b>	<b>-</b>

To subsidise and build capacity in water schemes owned and/or operated by the Department of Water Affairs (DWA) or by other agencies on behalf of the department and transfer these schemes to local government.

Conditions still to be met - remain liabilities (see note 14).

#### Finance Management Grant

Current-year receipts	1,770,000	1,700,000
Conditions met - transferred to revenue	(1,770,000)	(1,700,000)
	<b>-</b>	<b>-</b>

This grant is intended to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA). The conditions of the grant were met. No funds have been withheld.

#### Expanded Public Works Programme

Current-year receipts	1,174,000	2,591,000
Conditions met - transferred to revenue	(990,408)	(2,591,000)
	<b>183,592</b>	<b>-</b>

This grant is intended to incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in different areas in compliance with the EPWP guidelines.

Conditions still to be met - remain liabilities (see note 14).

#### Library Grant

Balance unspent at beginning of year	987,137	326,637
Current-year receipts	916,000	1,000,000
Conditions met - transferred to revenue	(1,446,363)	(339,500)
	<b>456,774</b>	<b>987,137</b>

To transform urban and rural community library infrastructure, facilities and services (primarily targeting previously disadvantaged communities) through arecapitalised programme at provincial level in support of national and local government initiatives.

Conditions still to be met - remain liabilities (see note 14).

#### Municipal Infrastructure Grant

Current-year receipts	225,258,000	194,755,000
Conditions met - transferred to revenue	(225,258,000)	(194,755,000)
	<b>-</b>	<b>-</b>

The grant is intended to provide capital finance for basic municipal infrastructure for poor households, micro enterprises and social institutions, to provide for new, rehabilitation and upgrading of municipal infrastructure.

Conditions still to be met - remain liabilities (see note 14).

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>24. Government grants and subsidies (continued)</b>		
<b>Integrated National Electrification Programme</b>		
Current-year receipts	-	14,000,000
Conditions met - transferred to revenue	-	(14,000,000)
	-	-

This grant is intended to address the electrification backlog of occupied residential dwellings, and the installation of bulk infrastructure and rehabilitation and refurbishment of electricity infrastructure in order to improve quality of supply. The conditions of the grant were met. No funds have been withheld.

### Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

## 25. Revenue

Service charges	677,315,512	660,157,651
Rental of facilities and equipment	1,099,009	1,407,646
Licences and permits	6,644,262	6,121,048
Commissions received	13,215,741	12,252,589
Donations	324,159	288,360
Other income	10,881,486	9,448,263
Interest received - investment	56,619,837	90,896,445
Property rates	250,713,059	258,006,000
Government grants & subsidies	858,498,726	780,488,000
Fines, Penalties and Forfeits	152,864	4,998,093
	<b>1,875,464,655</b>	<b>1,824,064,095</b>

### The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	677,315,512	660,157,651
Rental of facilities and equipment	1,099,009	1,407,646
Licences and permits	6,644,262	6,121,048
Commissions received	13,215,741	12,252,589
Other income 1	324,159	288,360
Other income	10,881,486	9,448,263
Interest received - investment	56,619,837	90,896,445
	<b>766,100,006</b>	<b>780,572,002</b>

### The amount included in revenue arising from non-exchange transactions is as follows:

<b>Taxation revenue</b>		
Property rates	250,713,059	258,006,000
<b>Transfer revenue</b>		
Government grants and subsidies	858,498,726	780,488,000
Fines, Penalties and Forfeits	152,864	4,998,093
	<b>1,109,364,649</b>	<b>1,043,492,093</b>

## 26. Bulk purchases

Electricity	582,160,545	451,966,499
Water	232,036,996	147,826,192
	<b>814,197,541</b>	<b>599,792,691</b>

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>27. Contracted services</b>		
<b>Presented previously</b>		
Information Technology Services	29,984,538	44,344,365
Fleet Services	3,797,013	3,730,303
Operating Leases	3,371,859	28,781,583
Specialist Services	62,992,033	62,000,112
Other Contractors	27,899,315	32,093,591
<b>28. Debt impairment</b>		
Debt impairment	748,800,823	(128,997,789)
<b>29. Depreciation</b>		
Property, plant and equipment	476,380,017	470,793,281

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

### 30. Employee related costs

#### Related parties remunerations

Acting allowances	1,878,737	4,457,938
Basic	277,160,845	240,329,565
13th cheques	22,593,125	17,585,394
Housing benefits and allowances	2,325,308	2,090,890
Industrial council	121,301	100,155
Leave pay provision charge	20,825,470	10,531,513
Medical aid - company contributions	26,632,904	22,847,081
Overtime payments	38,594,086	38,828,664
Provident and pension fund	78,668,265	58,290,924
Stand by allowances	2,927,485	2,532,682
Telephone/celephone allowance	342,613	275,215
Travel allowances	25,921,960	25,011,124
UIF	2,097,334	1,841,432
	<b>500,089,433</b>	<b>424,722,577</b>

#### Remuneration of Municipal Manager

Annual remuneration	487,356	362,408
Acting allowance ,Travelling allowance ,Subsistence and other allowances	370,891	571,591
leave pay	109,135	-
Contribution to UIF ,SDL, Medical and Pension Fund	164,378	102,917
	<b>1,131,760</b>	<b>1,036,916</b>

Mr MM Maluleka appointed as Municipal Manager from 02 February 2018 and resigned in December 2018.

The Acting Municipal Manager Mr STN Mnisi served for the period January 2019 - 30 April 2019

The Acting municipal Manager Ms MG Magole served for the period 01 May 2019-30 June 2019.

#### Remuneration of Chief Financial Officer

Annual remuneration	390,000	358,326
Acting allowance ,Travelling allowance ,Subsistence and other allowances	327,424	450,202
Leave pay	84,351	-
Contribution to UIF ,SDL, Medical and Pension Fund	42,569	67,913
	<b>844,344</b>	<b>876,441</b>

Mr K Maposa was appointed as CFO as from 01 July 2018 to 31 December 2018

The Acting Chief Financial Officer Mr MJ Motaung served for the period January 2019- 30 June 2019

#### Remuneration of Director Community Services

Annual remuneration	673,200	165,000
Acting allowance ,Travelling allowance ,Subsistence and other allowances	437,239	566,634
Bonuses	78,749	-
Contribution to UIF ,SDL, Medical and Pension Fund	122,358	51,900
Leave pay	117,209	-
	<b>1,428,755</b>	<b>783,534</b>

#### Remuneration of Director Corporate Support services

Annual remuneration	846,518	795,150
Acting allowance ,Travelling allowance ,Subsistence and other allowances	324,502	293,561
Bonuses	70,543	-
Contribution to UIF ,SDL, Medical and Pension Fund	130,527	194,968

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

### 30. Employee related costs (continued)

1,372,090 1,283,679

Ms MG Magole appointed as Director Corporate Support Service as from 03 July 2017 to 30 April 2019.  
The Acting Director Corporate Support Service DM Masemola served for the period May and June 2019.

#### Remuneration of Director Public Safety

Annual remuneration	624,000	150,000
Acting allowance ,Travelling allowance ,Subsistence and other allowances	518,632	282,565
Bonuses	50,000	-
Contribution to UIF ,SDL, Medical and Pension Fund	182,908	44,072
Leave pay	127,646	-
	<b>1,503,186</b>	<b>476,637</b>

Ms P Dilinga appointed as Director Public Safety as from 01 April 2018.

#### Remuneration of Director Infrastructure and Technical Services

Annual remuneration	360,000	163,200
Acting allowance ,Travelling allowance ,Subsistence and other allowances	399,097	230,322
Bonuses	44,160	-
Contribution to UIF ,SDL, Medical and Pension Fund	40,395	39,802
Leave pay	88,860	-
	<b>932,512</b>	<b>433,324</b>

Mr FR Ntekele appointed as Director Infrastructure and Technical Services as from 09 April 2018 to date.

Mr FR Ntekele appointed as Director Infrastructure and Technical Services and resigned on 31 December 2018.  
A Baloyi was acting from February 2019 to 30 June 2019.

#### Remuneration of Director Local Economic development

Annual remuneration	1,145,118	923,257
Acting allowance ,Travelling allowance ,Subsistence and other allowances	226,938	222,488
Contribution to UIF ,SDL, Medical and Pension Fund	162,556	1,884
	<b>1,534,612</b>	<b>1,147,629</b>

Mr STN Mnisi appointed as Director for Economic Development ,Tourism and Agriculture as from 03 July 2017.

#### Remuneration of Director Human Settlement

Acting allowance ,Travelling allowance ,Subsistence and other allowances	379,443	340,970
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The Acting Director of Human Settlement DN Pule served for a period of 01 July 2018 to 30 June 2019

#### Remuneration of Chief Audit Executive

Annual Remuneration	686,994	592,381
Acting allowance ,Travelling allowance ,Subsistence and other allowances	499,795	404,176
Contributions to UIF, Medical and Pension Funds	180,791	168,579
	<b>1,367,580</b>	<b>1,165,136</b>

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

### 31. Finance costs

Non-current borrowings	1,879	2
Current borrowings	4,120,995	10,299,045
Landfill site	(12,696,132)	11,590,124
Defined benefit plan	13,272,083	19,245,000
	<b>4,698,825</b>	<b>41,134,171</b>

### 32. Other operational expenses

Advertising	2,437,702	3,042,330
Auditors remuneration	7,876,988	3,369,043
Bank charges	1,037,422	1,025,340
Consulting and professional fees	2,906,961	4,488,116
Consumables	23,683,734	18,711,309
Debt collection	201,724	306,278
Corporate identity	34,600	151,200
Grant expenses	97,095	102,237
Insurance	20,123,465	8,980,082
Community development and training	230,668	228,272
Sport development	59,317	95,576
Geographical information system	149,072	442,863
IDP process	(4,403)	8,893
Marketing	79,600	124,000
Motor vehicle expenses	493,242	703,472
Water and electricity	15,829,786	15,041,703
Postage and courier	29,038	5,232
Printing and stationery	2,971,633	3,587,784
Audit committee costs	731,433	421,262
Protective clothing	3,593,296	1,673,421
Repairs and maintenance	103,202,222	81,921,290
Subscriptions and membership fees	109,801	366,759
Telephone and fax	3,581,335	6,116,479
Training cost	2,014,200	1,030,775
Travel and accommodation	10,189,977	17,056,233
Refuse	4,920,409	1,939,662
SALGA	4,051,230	4,008,730
Licence fees	750,021	2,599,401
Write offs	4,822,176	33,286,212
Training levy	(6,600)	76,050
Other expenses	5,952,600	4,530,120
Attending of meetings and congresses	178,753	254,681
Social programmes	142,332	386,248
Ward committees expenses	6,636,750	4,468,250
Mayoral out-reach programme	782,965	531,824
Chemical cost	7,561,890	5,973,129
Community participation	1,102,555	1,168,210
Mobile chemical toilets	226,117	646,889
	<b>238,781,106</b>	<b>228,869,355</b>

### 33. Impairment of assets

#### Impairments

Property, plant and equipment	637,351	3,381,792
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# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

### 34. Lease rentals on operating lease

<b>Motor vehicles</b>		
Contractual amounts	28,736,404	55,155,428
<b>Equipment</b>		
Contractual amounts	9,888,600	9,888,600
	<b>38,625,004</b>	<b>65,044,028</b>
<b>Minimum lease payments due</b>		
- within one year	94,552,162	178,428,836
- in second to fifth year inclusive	39,396,734	286,122,968
<b>Total</b>	<b>133,948,896</b>	<b>464,551,804</b>
<b>Minimum lease payments due</b>		

The Municipality has leased vehicles from BBT through an operating lease for a period of three years (36 Months). R13 599 522 monthly installments are accrued and payable on a quarterly bases. The annual escalation rate is 9%. The straightlined R108 839 978 operating lease expenditure was recognised in the statement of financial performance.

### 35. Remuneration of councillors

#### Related parties remunerations

Executive mayor	903,871	856,892
Speaker	731,975	691,607
Chief Whip	689,003	649,204
Mayoral committee members	7,541,529	7,072,767
Other Councillors	21,183,961	21,260,945
	<b>31,050,339</b>	<b>30,531,415</b>

### 36. Cash generated from operations

Deficit	(1,133,923,465)	(224,781,270)
<b>Adjustments for:</b>		
Depreciation and amortisation	476,380,017	470,793,281
Gain on sale of assets and liabilities	924,062	-
Fair value adjustments	-	149,240,000
Finance costs - PRMA	(12,696,132)	26,662,850
Finance cost- rehabilitation provision	-	5,873,269
Impairment deficit	637,351	3,381,792
Debt impairment	748,800,823	12,682,690
Movements in operating lease assets and accruals	34,428,685	45,678,536
Movements in retirement benefit assets and liabilities	30,689,083	(24,860,000)
Movements in provisions	(12,696,132)	(334,415)
<b>Changes in working capital:</b>		
Inventories	(6,918,273)	3,354,651
Receivables from exchange transactions	(345,867,300)	118,839,087
Other receivables from non-exchange transactions	418,842,932	(243,352,767)
Prepayments	(8,978)	(3,518,144)
VAT payable	48,868,988	(49,755,384)
Taxes and transfers payable (non exchange)	5,196,361	(50,857,247)
Unspent conditional grants and receipts	15,915,911	660,500
Consumer deposits	24,860,485	2,001,641
(Decrease) / Increase other financial assets	4,041,246	(292,751)
Payables from exchange transactions	(56,598,236)	11,994,654
	<b>240,877,428</b>	<b>253,410,973</b>

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

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### 37. Commitments

#### Authorised capital expenditure

##### Commitments approved and contracted for

• Property, plant and equipment	220,896,199	160,811,498
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##### Commitments approved but not yet contracted for

• Property, plant and equipment	-	87,682,753
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##### Total capital commitments

Already contracted for but not provided for	220,896,199	197,575,247
Not yet contracted for and authorised by accounting officer	-	87,682,753
	<b>220,896,199</b>	<b>285,258,000</b>

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This committed expenditure relates to property and will be financed by available bank facilities, grants, retained surpluses, existing cash resources, funds internally generated, etc.

### 38. Auditors' remuneration

Fees	7,876,988	3,369,043
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# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

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### 39. Contingencies

**Category A:** Claim exceeding R500 000

**Category B:** Claims between R100 000 and R500 000 .

**Category C:** other Legal matters less than R100 000 .

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### Contingent assets

#### Contingent Liabilities

##### Heading

1. White Leopard - Claim for security service rendered to the municipality	5,569,102	5,569,102
2. Chiefton Facility Management - Claim for payment of invoices issued for work allegedly done	985,425	985,425
4. Sobek Engineering (Pty) Ltd - Plaintiff is claiming a total amount of R7 878 688.53 plus interest calculated at the rate of 15.5% per annum which is alleged to be for service rendered and cancellation of contract respectively	7,878,689	7,878,689
5. Sechaba Traffic Solutions & other - Plaintiff is claiming an amount of R1 102 901.90 which is in respect of the mandate given to the plaintiff for collection of outstanding traffic fines to the value of R1.5 million.	1,102,902	1,102,902
6. Petrus Rademan - Plaintiff is suing municipality for the medical expenses, pain and suffering and further for the general damages which he suffered after being electrocuted. Plaintiff alleged that such electrocution as a result of the installation of prepaid electricity water installed by municipality's services provider.	4,000,000	4,000,000
7. Oppcrete Prop Development Co (Pty) Ltd - Loss suffered as a result of the setting aside of section 82 certificate by the municipality.	5,411,582	5,411,582
8. Shane Noel Adams - Claim for payment of R3 400 000.00 which if for personal injuries and damage to motor vehicle allegedly caused by pothole.	3,400,000	3,400,000
9. Moopa Trading (Pty) Ltd - Plaintiff claims an amount of R1 020 000.00 for repudiation of contract for collection and transportation of refuse from Madidi and disposing it off to Waste Transfer Station	1,020,000	1,020,000
10. Naledimiso Trading Services - Plaintiff claims an amount of R898 800 for repudiation of contract for collection and transportation of refuse from Klipgat and disposing it off to Waste Transfer Station	898,800	898,800
11. Outdoor Sensation - Plaintiff claims an amount of R890 400 for repudiation of contract for collection and transportation of refuse from Maboloka and disposing it off to Waste Transfer Station	890,400	890,400
12. Daybreak Properties & Auctioners - Based on the contract entered between the Municipality and Daybreak properties in respect of landfill management, plant and vehicle supply, the SLA prices are VAT inclusive and the company Daybreak has been claiming VAT on top disregarding clause 8 of the SLA. We have instructed Sekati Inc to assist the Municipality in recovering all excess monies paid to Daybreak.	1,021,137	1,021,137
13. William Moeketsi - Plaintiff claim damages to the Municipality as a result of plaintiff fell into an open/uncovered manhole situated in Mayening, Mamba Section near the Ratang Tavern, Madibeng, North west.	1,060,000	1,060,000
14. Unadile (PTY) LTD - We received combined Summons on 24 November 2017. The municipality entered into an agreement with the plaintiff for the administration and EPWP beneficiaries (120 beneficiaries). The agreement was terminated and the plaintiff elected to accept repudiation of the contract. Now the Plaintiff is claiming damages in the sum of R2 995000.00(R199 700.00 X 15 months) for patrimonial loss due to breach of contract. We then instructed Rambevha Morubane Attorneys to defend the matter. They have entered a notice of intention to defend and still running with the matter.	2,995,000	2,995,000

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

### 39. Contingencies (continued)

15. Lebogang Electrical Wholesalers (Pty) Ltd - The claimant's claims for specific performance in terms of a written service level agreement dated 15 April 2013, read with the letter of appointment dated 15 April 2013, in terms whereof the claimant was appointed by the municipality as a service provider for maintenance of the electrical infrastructure in madibeng. The amount which the claimant claim is R3 643 635.66 together with interest on the above amount at 10.25% from 24th march 2017 to date of payment, calculated and compounded annually	-	3,643,635
16. Resilient Properties - Urgent Application to oppose a Rule Nisi obtained in default	-	30,000,000
17. Moche/ Cinderford Joint Venture - Instructions to launch Application against Default Judgement	-	3,593,240
18. Summons against the Municipality for the payment of the following amounts -R129 738 078.88 together with interests on capital component of R76 490 338.60 from 01st Feb 2010 -R56 234 977.53 together with interests on capital component of R34 062 560.90 -R132 704 546.94 together with interests on capital component of R80 447 101.44 -Costs of suit including employment of two counsel	772,450,315	772,450,315
19. Kuhle General Consulting CC - Plaintiff is claiming a total amount of R1 837 641.44 plus interest calculated at the rate of 10.25% a which is alleged to be for service rendered	1,837,641	-
20. Kuhle General Consulting CC - Plaintiff is claiming an amount of R25 677.878.20 plus interests calculated at 10.25% which is alleged to be for breach of an agreement.	25,677,878	-
21. Treru Civil Construction CC - Plaintiff is claiming a total amount of R3 670 695.00 plus interest calculated at the rate of 10% a tempore morae for standing time for the period of 2 February 2017 to 26 April 2017	3,670,695	-
22. Fantique Trading 726 CC - The Plaintiff is claiming an amount of R2 291 358.90 which is alleged to be for damages suffered as a result of repudiation of contract.	2,291,359	-
23. Balaphorwa 72 Construction and Civil Engineering - The Applicant filed an application for joinder of the Municipality as co-defendant in the matter wherein Hennox 189 CC is suing the Applicant for payment of R620 668.00 which is alleged to be for variation work approved by the Municipality.	620,668	-
24. Magalies Water - The Plaintiff is claiming an amount of R36 550 923.44 plus interests calculated at 10.5% of which R16 149 037.04 is alleged to be for breach of the undertaking by the Defendant and R20 401 886.40 alleged to be for damages incurred by the Plaintiff for rendering additional services pursuant to the acknowledgement by the Defendant to the Plaintiff.	36,550,923	-
	<b>879,332,516</b>	<b>845,920,227</b>

### Category B claims

1. Barlow and other - Refund for arrear rates and taxes paid under protest	195,921	195,921
2. S Sechabela-The plaintiff is suing the municipality for damages incurred as a result of injuries sustained when she fell into a sewerage drain which was allegedly left open and unattended on 3rd February 2012.	250,000	250,000
3. Telkom-Plaintiff claim for payment of damages to its copper cables allegedly caused by municipality workers	178,181	178,181
4. Donovan David Peter De Bryun - Loss suffered as a result of the Municipality's alleged breach of its statutory and/or legal duty to erect a stop sign and/or to maintain the road signs and in particular to ensure the visibility of warning signs amongst others.	250,000	250,000
5. SADC Directory Services (PTY) LTD -The Plaintiff issued summons against the Municipality for payment of R273 531.60 together with interests at a rate of 10.25% which is alleged to be for directory services in a form of a full page colour display advertorial in terms of partly verbal and partly written contract entered into for a period of twelve months commencing on 22 Feb 2016 and terminating on 21 Feb 2017. Subsequent to the issuing of summons, the Plaintiff filed a summary judgment application.	273,532	273,532
	<b>1,147,634</b>	<b>1,147,634</b>

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

### 39. Contingencies (continued)

#### Category C claims

1. Nurumahomed Aboobakar - For damage occurred as a result of negligence when electricity supply was restored	15,929	15,929
2. Alwyn Theron - The plaintiff is suing the municipality for damages that occurred to his vehicle by hitting a pothole whilst driving at old Rustenburg road.	30,136	30,136
3. Pieter Jooste - For damage occurred to Plaintiff vehicle when it collided with a pothole.	37,166	37,166
4. John Cryer - For damage occurred to Plaintiff vehicle when it collided with a pothole	-	11,160
5. Rookopies Oos Water Users Association - For levy owed to Plaintiff in respect of maintenance and running costs	86,755	86,755
6. Andries Hendrik Vermaak - Plaintiff is suing the municipality for damages which occurred as a result of the plaintiff's vehicle collided with a Lange pothole that situated within the municipality's jurisdiction. No payment has been made	9,266	9,266
7. Telkom - Payment claim for payment of damages of its copper cables allegedly caused by the municipality.	36,085	36,085
8. Telkom (open serve) - Plaintiff claim for payment of its cables damaged by the Municipality in Mmakau, Sonop and Mothotlung.	39,827	39,827
9. Bezuidenhout - Claim for damages allegedly caused by pothole	23,661	23,661
10. SAMWU o.b.o Dr Masike - Labour dispute under case number JS 909/16 lodged by the Applicant against the Municipality at the Labour court. Instructions received on 27-03-2017 when application for default judgement was served on the municipality.	-	69,495
11. Heinrich F.E Jansen- Claim for damages as a result of a pot hole accident, which took place during 21 May 2015. Default judgment granted on 02 August 2017.	67,640	67,640
12. Johan Christo Lotter N.O (Granite Cutting Works ) PTY LTD - The Plaintiff is claiming an amount of R35 103.06 which is alleged to be for loss in production suffered by the Plaintiff due to unsubstantiated disconnection of electricity to Granite Cutting Works.	35,103	-
	<b>381,568</b>	<b>427,120</b>

The following information is disclosed in Note 13, Public Investment Corporation-summons against the Municipality for the payment of the following amounts \* R129 738 078.88 together with interest on capital component of R 76 490 338.60 from 01st Feb 2010, \*R56 234 977.53 together with interest on capital component of R 34 062 560.90, \*R132 704 546.94 together with interest on capital component of R80 447 101.44, \*Cost of suit including employment of two counsel

### 40. Prior period errors

Presented below are those items contained in the statement of financial position, statement of financial performance that have been affected by prior year adjustments:

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

### 40. Prior period errors (continued)

The opening balance on PIC loans were misstated due to an error on PIC amortisation schedules. The PIC loan balance and interest on the loan was adjusted accordingly.

Not all retentions were accounted for in the prior year due to suppliers not submitting invoices on a timely basis. Retentions, VAT and the infrastructure assets were adjusted accordingly.

Property plant and equipment were duplicated and projects that was already accounted for in the previous years, had been reverse accordingly.

During the year an error was discovered that there were transactions incorrectly recorded in the consumer account in stead of the main bank account (and visa versa).

There were prepaid electricity transactions omitted in the previous financial year.

There were duplicated transactions on the cash book that was subsequently reversed.

There were consumers who's service charges will determined using inappropriate bases for estimations. The basis for estimation was revised where there were no recent service readings the Red Book estimates are used to estimate the services consumed (provision for debt impairment has also been revised accordingly)

In the previous financial year there were transaction that were erroneously recorded in the employee related cost in stead of being accrued.

The following disclosure notes were also adjusted:

- Irregular expenditure
- Commitments
- Contingent liability
- Unauthorised expenditure
- Fruitless and wasteful expenditure &
- Distribution losses

The financial impact of prior period error correction is indicated below:

### Statement of financial position

Statements of financial positions	Previously reported	Correction of error	Restated
1. Property plant and equipment	5,518,674,633	102,264	5,518,776,897
2. Payables from exchange transactions	-	-	-
4. VAT payable	(62,239,182)	(10,969,794)	(73,208,976)
5. Public investment Corporation	(1,115,455,994)	1,115,455,994	-
<b>Accumulated Surplus</b>	<b>4,340,979,457</b>	<b>1,104,588,464</b>	<b>5,445,567,921</b>

Financial Performance	Previously reported	Correction of error	Restated
6. Depreciation and amortisation	470,954,200	3,969,938	474,924,138
7. Finance costs (Interest from PIC loan, the interest was reclassified contingent liabilities)	160,510,295	(119,376,124)	41,134,171
9. Bulk purchases (Reversal of expenditure incurred, (captured double))	505,967,738	93,824,953	599,792,691
<b>Surplus for the year</b>	<b>1,137,432,233</b>	<b>(21,581,233)</b>	<b>1,115,851,000</b>

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

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### 41. Risk management

#### Financial risk management

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

#### Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

The municipality analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the municipality calculates the impact on surplus and deficit of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

#### Credit risk

Credit Risk related to consumer debtors is managed in accordance with the Council's credit control and debt collection policy. The Council's credit exposure is spread over a large number and wide variety of consumers, and is not concentrated in any particular sector or geographical area. Adequate provision has been made for anticipated bad and doubtful debts.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2019	2018
Other financial assets	-	4,041,246
Receivables from exchange transactions	501,274,677	219,140,094
Receivable from non-exchange transaction	498,770,991	432,742,768
Cash and cash equivalents	(214,936,733)	33,691,839
Payables from exchange transactions	659,119,590	534,051,142
Payables from non exchange transactions	47,180,527	47,665,339
Consumer deposits	40,807,312	15,946,827

### 42. Going concern

We draw attention to the fact that at June 30, 2019, the municipality had an accumulated surplus (deficit) of R 4,400,145,586 and that the municipality's total assets exceed its liabilities by R 4,400,145,586.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 43. Events after the reporting date

Management is not aware of any events that occurred after year end that may have an impact on the financial statements.

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

### 44. Unauthorised expenditure

Opening balance	1,593,652,097	1,593,652,097
Unauthorised debit orders	-	10,621,497
	<b>1,593,652,097</b>	<b>1,604,273,594</b>

### 45. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure - Opening balance	33,143,433	22,032,198
Fruitless and wasteful expenditure - Interest on overdue accounts	4,141,030	11,111,235
	<b>37,284,463</b>	<b>33,143,433</b>

The current year fruitless and wasteful expenditure amounting to R4 141 030 relates to interest charge on late payment of invoices from Eskom (R3 421 593), Telkom (40 505), Rand Water (R221 508), Auditor General South Africa (R43 738), Tshwane (R62 486) SARS (R313 488) and other suppliers (R37 712).

### 46. Irregular expenditure

Opening balance	1,396,228,574	1,324,693,856
Add: Irregular Expenditure - current year	273,944,537	60,913,221
Add: Prior year amount recognised in the current year.	152,898,763	-
Unauthorised debit orders	6,371,988	10,621,497
	<b>1,829,443,862</b>	<b>1,396,228,574</b>

### Analysis of expenditure awaiting condonation per age classification

Current year	273,944,537	60,913,221
Prior years	1,538,505,840	1,324,693,856
	<b>1,812,450,377</b>	<b>1,385,607,077</b>

### Details of irregular awaiting condonation

Current year	273,944,537
Prior years	1,385,607,077
	<b>1,659,551,614</b>

### 47. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

Current year subscription / fee	4,051,230	4,008,730
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#### Audit fees

Current year fee	7,876,988	3,369,043
Amount paid - current year	(7,876,988)	(3,369,043)
	-	-

#### PAYE, Skills and UIF

Opening balance	3,915,350	4,500,356
Current year fee	77,896,548	69,513,662
Amount paid - current year	(76,850,132)	(70,098,668)
	<b>4,961,766</b>	<b>3,915,350</b>

# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

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### 47. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Pension and Medical Aid Deductions

Opening balance	7,412,300	4,514,762
Current year fee	144,708,964	144,708,964
Amount paid - current year	(141,797,292)	(141,811,426)
	<b>10,323,972</b>	<b>7,412,300</b>

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#### VAT

VAT receivable	30,205,717	78,744,415
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# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

### 47. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at June 30, 2019:

June 30, 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
A Modisakeng	752	12,126	12,878
AI Molotsi	390	2,034	2,424
AWS Mahlatse	391	2,131	2,522
AM Modisakeng	3,682	47,431	51,113
AS Rakomane	404	2,717	3,121
BA Maubane	390	2,044	2,434
CM Mampuru	380	1,660	2,040
CS Sekhoto	392	2,132	2,524
DS Maimane	3,699	26,900	30,599
ED Diale	146	3,433	3,579
EM Nkoe	390	2,034	2,424
FM Masemola	390	2,034	2,424
HT Phalwane	-	8	8
II Maledu	390	1,473	1,863
J Mosito	390	2,034	2,424
J Ratloi	1,850	48,842	50,692
JM Modipane	390	2,034	2,424
JM Mothibe	12,161	44,741	56,902
JT Moabi	402	2,619	3,021
K S Ntshabele	446	6,697	7,143
KS Tlapu	392	2,132	2,524
LG Mhlambi	402	2,619	3,021
M Tihopane	3,069	2,069	5,138
MA Mokgoko	390	2,034	2,424
MD Mosolodi	402	2,619	3,021
MG Sadikge	4,512	89,215	93,727
ML Makgale	390	2,034	2,424
MM Ramahofu	394	2,229	2,623
MD Khumalo	2,970	80,799	83,769
MM Sekgothe	436	6,162	6,598
MW Motlhasedi	1,554	2,127	3,681
M Du Plessis	3,041	1,426	4,467
NB Muhlana	6,146	56,015	62,161
MP Tihopane	6,954	27,424	34,378
NM Maqakamba	390	2,034	2,424
O P Mosielele	431	5,927	6,358
P Pretorius	392	2,132	2,524
OD Marapyane	432	5,986	6,418
P.K Mawayi	9,340	110,985	120,325
PA Phetlhe	394	2,132	2,526
PR Mohulatsi	390	2,034	2,424
PB Makgabo	390	2,034	2,424
RE Dikgang	380	1,661	2,041
RG Sithole	3,852	13,090	16,942
RN J & SJ Breytenbach	1,756	45	1,801
RP Padi	390	2,034	2,424
RR Mohulatsi	390	2,131	2,521
S D Nthangeni	447	6,758	7,205
S M Maunatlala	411	4,603	5,014
T Mokwena	390	2,034	2,424
TM Modiha	402	2,619	3,021



# MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

### 47. Additional disclosure in terms of Municipal Finance Management Act (continued)

TS Bogale	791	4,754	5,545
WS Ramaboa	392	2,132	2,524
WJ Muller	1,117	279	1,396
	<b>81,364</b>	<b>669,432</b>	<b>750,796</b>

### Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Accounting Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

#### Incident

Current year	-	34,006,903
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### 48. Distribution losses

#### ELECTRICITY (Units)

Prior year calculation was restated due to lack of evidence, the calculation for distribution loss was re-performed with supporting documentation.

Year	Units purchased	Units lost	Percent lost
2019/06/30	- 430,116,049.00	130,248,761.70	30.28 %
2018/06/30	- 434,280,262.00	181,439,183.00	41.78 %

#### WATER(Units)

Year	Units purchased	Units lost	Percent loss
2019/06/30	- 30,307,525.00	19,740,434.00	65.13 %
2018/06/30	- 28,352,024.00	18,703,818.00	65.97 %

### 49. Licences and permits (exchange)

Road and Transport	6,644,262	6,121,048
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### 50. Fines, Penalties and Forfeits

Law Enforcement Fines	152,864	4,998,093
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## Appendix E(1)

June 2019

### Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2019

	Forecast # 1 2019 Act. Bal.	Forecast # 1 2019 Adjusted budget	Variance		Explanation of Significant Variances greater than 10% versus Budget
	Rand	Rand	Rand	Var	
Revenue					
Property rates	247,076,763	320,131,000	(73,054,237)	(22.8)	The reduction in the property values resulted in lower than anticipated revenue.
Service charges	739,997,972	728,868,000	11,129,972	1.5	
Rental of facilities and equipment	1,099,009	1,270,000	(170,991)	(13.5)	Higher utilisation of facilities increased revenue above anticipated.
Interest received (trading)	66,187,560	86,800,000	(20,612,440)	(23.7)	
Licences and permits	6,121,048	-	6,121,048	-	Higher turnout in the licencing increased revenue.
Commissions received	12,252,589	-	12,252,589	-	The commission was inadequately budgeted.
Donation received	1,261,000	-	1,261,000	-	
Fines	2,814,802	1,001,000	1,813,802	181.2	Income from traffic fines was incorrectly budgeted.
Transfers & subsidies	858,498,726	628,803,000	229,695,726	36.5	
Operational income	10,881,486	7,644,000	3,237,486	42.4	Credit control measures were not implemented accordingly on, amongst other, Reconnection fees for electricity
Interest received - investment	5,807,077	6,400,000	(592,923)	(9.3)	
	1,951,998,032	1,780,917,000	171,081,032	9.6	
Expenses					
Personnel	(479,962,928)	(400,764,000)	(79,198,928)	19.8	
Remuneration of councillors	(30,759,039)	(32,370,000)	1,610,961	(5.0)	
Depreciation	(470,793,281)	552,750,000	,023,543,281)	(185.2)	Condition assessment of infrastructure assets indicates lower than anticipated depreciation.
Impairments	(637,351)	(1,162,649)	525,298	(45.2)	
Finance costs	12,650,515	(110,500,000)	123,150,515	(111.4)	
Debt Impairment	(112,978,125)	(280,000,000)	167,021,875	(59.7)	The increase in debtors payment rate resulted in lesser than anticipated impairment.
Lease rentals on operating lease	(94,030,137)	(4,000,002)	(90,030,135)	2,250.8	
Bulk purchases	(589,943,514)	(550,000,000)	(39,943,514)	7.3	
Contracted Services	139,978,938	271,888,000	(131,909,062)	(48.5)	

## Appendix E(1)

June 2019

### Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2019

	Forecast # 1 2019 Act. Bal.	Forecast # 1 2019 Adjusted budget	Variance	Explanation of Significant Variances greater than 10% versus Budget
Transfers and Subsidies	(43,821)	(4,000,000)	3,956,179	(98.9) There were lesser than anticipated registered beneficiaries which resulted in lesser expenditure.
Operational expenses	(126,878,900)	(166,355,000)	39,476,100	(23.7)
Other revenue and costs	(1,753,397,643)	(724,513,651)	1,028,883,992	142.0
Actuarial gain / (loss) on post employment benefits	-	-	-	-
Fair value adjustments	-	-	-	-
Net surplus/ (deficit) for the year	198,600,389	1,056,403,349	(857,802,960)	(81.2)